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Order 2002-5-17
Served: May 24, 2002



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 21st day of May, 2002

Essential Air Service at

SEWARD, ALASKA

under 49 U.S.C. 41731 *et seq.*

DOCKET OST-97-2942- / /

ORDER TERMINATING SUBSIDY AND FINALIZING RATES

Summary

By this order, the Department is terminating the subsidy eligibility of Seward, Alaska. We are also setting new final subsidy rates for FS Air Service for the period October 1, 2001, through December 31, 2001, and from January 1, 2002, until 60 days after the service date of this order, or when FS Air Service terminates its service to Seward, whichever comes first.

Background

By Order 99-12-14, the Department authorized an annual subsidy rate of \$82,878 for FS Air Service, Inc., to provide essential air service (EAS) at Seward, Alaska, consisting of 10 nonstop round trips each week in the peak season and 3 in the off-peak to Anchorage. By the terms of that order, the rate expired on December 31, 2001.

State of Alaska

As is our normal practice in dealing with EAS issues in the State of Alaska, we contacted the Alaska Department of Transportation and Public Facilities (the State) to discuss the air service situation at Seward. (Title 49, US Code grants the State of Alaska some statutory authority over service levels within the State, and it typically acts as the

spokesman for the communities.) After several discussions between the State and the EAS staff, on April 26, 2002, the State sent a letter to the EAS staff stating that, among other things “there is not sufficient passenger traffic to justify continued EAS subsidy for air service to Seward at this time.” The State went on to note that Seward, unlike other communities receiving subsidized service in Alaska, has highway access to the outside world. Seward is a distance of 120 miles away from Anchorage, the nearest community with air service, via an all-season, all-weather highway. There is also train service between Seward and Anchorage in the summer. The State noted that while it was consenting to the withdrawal of subsidy support for Seward at this time, it retained its right to request the re-institution of service in the future, should circumstances warrant.

Decision

We appreciate the important role that the State plays in EAS matters within Alaska. It has always taken a very practical view of the EAS needs in Alaska, as it has again done here. Based on the State’s letter, we will not continue subsidy support for Seward’s air service under the EAS program at this time. While Seward generated more passenger traffic than most other subsidized communities in Alaska, the critical difference is that those other communities, while much smaller than Seward, have no alternative means of accessing the national air transportation system. Also, traffic at Seward has declined somewhat recently, which would tend to drive up the subsidy cost of maintaining air service. Given the State’s position in this case, it would not be appropriate to continue subsidizing air service to Seward. Therefore, we will end subsidy payments for service at Seward and will for now terminate the subsidy eligibility of Seward.¹ In order to allow for an orderly shutdown of service, we will continue to subsidize FS Air Service for its service to Seward for up to 60 days from the service date of this order.

Interested carriers, including FS Air Service, may of course provide scheduled service at Seward on their own initiative. Our action here simply makes Seward ineligible to receive subsidized air service.

If FS Air Service elects to suspend service, we expect the carrier to contact all passengers holding reservations for affected flights, to notify them of the termination of service and the availability of alternate ground service, and to assist them in making alternate travel arrangements.

Final Rates for FS Air Service

As a result of terrorist attacks, the Department issued Order 2002-2-13, authorizing emergency subsidy to carriers, effective retroactive to October 1, 2001, through the end of the normal contract period. That order granted immediate rate relief to carriers in order to get them much-needed cash as soon as possible, and also stated our intention of

¹ In view of the State of Alaska’s comments, this decision may be revisited in the future at the State’s request.

renegotiating all essential air service contracts, retroactive to October 1.² Therefore, FS Air Service is entitled to revised compensation from October 1, 2001, through December 31, 2001, to recognize the impact of the terrorist attacks on carrier costs and revenues. And because the contract in Order 99-12-14 expired on December 31, 2001, the carrier is also entitled to receive a new compensation level for the period January 1, 2002, until it ceases service. We have negotiated two rates with the carrier to cover these periods. The rates we have agreed to with FS Air Service appear reasonable. For the period from October 1, 2001, through December 31, 2001, the only change from the prior rate is the cost of insurance, and the annualized rate increases slightly from \$82,878 to \$86,347. For the period beginning January 1 prospectively, we have used the slightly higher insurance costs used for QE 12/31/01, and have also reduced projected revenue to reflect the decreased use of the service. Otherwise, the costs are the same as in Order 99-12-14, and the new annualized rate is \$166,013.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. We terminate the subsidy eligibility of Seward, Alaska, and allow FS Air Service, Inc., to terminate service at the community within 60 days of the service date of this order;
2. The Department sets the final rate of compensation for FS Air Service, Inc., for the provision of essential air service at Seward, Alaska, for the period from October 1, 2001, through December 31, 2002, at \$86,347 on an annual basis, as described in Appendix B-1, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$127.73;³
3. The Department sets the final rate of compensation for FS Air Service, Inc., for the provision of essential air service at Seward, Alaska, for the period from January 1, 2002, until 60 days after the service date of this order, or when the carrier terminates service, whichever comes first, at \$166,013 on an annual basis, as described in Appendix B-2, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$245.58;⁴
4. This docket will remain open until further order of the Department; and

² See Order 2002-2-13 for a complete discussion of the emergency relief.

³ See Appendix B-1 for calculation.

⁴ See Appendix B-2 for calculation.

5. We will serve a copy of this order on the Mayor of Seward, the Alaska Department of Transportation and Public Facilities, and FS Air Service, Inc.

By:

READ C. VAN de WATER
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>*

**FS Air Service, Inc.,
Compensation Requirement for EAS at Seward, Alaska**

	Annual Basis		
	Order 99-12-14	10/1-- 12/31/01	Proposed 1/1/02
Hours 1/	338	338	338
Annual Flights 1/	676	676	676
Passengers	1,800	1,800	700
Cargo lbs.	6,000	6,000	2,100
Pax. Rev.	\$123,156	\$123,156	\$44,933
<u>Cargo @ \$.37/lb.</u>	<u>\$2,220</u>	<u>\$2,220</u>	<u>\$777</u>
Total Revenue	\$125,376	\$125,376	\$45,710
Flying Ops. @ \$83.27/hr.	\$28,145	\$28,145	\$28,145
Fuel @ \$74.23/hr.	\$25,090	\$25,090	\$25,090
Insurance 2/	\$17,799	\$20,003	\$20,003
Maintenance @ \$124.16/hr.	\$41,966	\$41,966	\$41,966
<u>Depreciation @ \$57.14/hr.</u>	<u>\$19,313</u>	<u>\$19,313</u>	<u>\$19,313</u>
Total Direct	\$132,313	\$134,517	\$134,517
Indirects @ 49.9%	\$66,024	\$67,124	\$67,124
Total Operating	\$198,337	\$201,641	\$201,641
<u>Return @ 5%</u>	<u>\$9,917</u>	<u>\$10,082</u>	<u>\$10,082</u>
Total Economic	\$208,254	\$211,723	\$211,723
Subsidy @ 100%	\$82,878	\$86,347	\$166,013

1/ Peak: 20 flts./week x 26 weeks x .5 hrs. = 260 hrs., 520 deps.

Off-Peak: 6 flts./week x 26 weeks x .5 hrs. = 78 hrs., 156 deps.

2/ \$52.66/hr. in Order 99-12-14, increased to \$59.18/hr.

**FS Air Service, Inc.
Essential Air Service to be Provided to Seward, Alaska**

Effective Period: October 1, 2001, through December 31, 2001.

Scheduled Service: 10 nonstop round trips in the peak and 3 in the off-peak to Anchorage.

Aircraft: Piper PA-31 Navajo.

Annual Compensation: \$86,347

Rate per Departure/Arrival: \$127.73 ¹

Weekly Ceilings: \$2,554.60 in the peak and \$766.38 in the off-peak ²

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ Annual compensation of \$86,347 divided by 676 flights, the estimated annual completed departures and arrivals at a 100 percent completion factor: 20 departures/arrivals x 26 weeks = 520; 6 departures/arrivals x 26 weeks = 156, or 676 total.

² Subsidy rate per arrival/departure at Anchorage of \$127.73 multiplied by 20 subsidy-eligible arrivals and departures each week in the peak, and 6 in the off-peak.

**FS Air Service, Inc.
Essential Air Service to be Provided to Seward, Alaska**

Effective Period: January 1, 2002, until further Department action.

Scheduled Service: 10 nonstop round trips in the peak and 3 in the off-peak to Anchorage.

Aircraft: Piper PA-31 Navajo.

Annual Subsidy: \$166,013

Rate per Departure/Arrival: \$245.58 ³

Weekly Ceilings: \$4,911.60 in the peak and \$1,473.48 in the off-peak ⁴

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

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